World Chronicle

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World Bank

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POVERTY REDUCTION & ECONOMIC MANAGEMENT

Reducing poverty worldwide has been, in recent years, one of the main tasks of the World Bank. Its main strategies are: targeting aid toward those countries which have sound economic, institutional and environmental policies but have not benefited from private capital flows; and paying particular attention to countries with special circumstances, where inadequate policies are a legacy of past actions or unusually difficult circumstances. In this edition of **World Chronicle**, Masood Ahmed, a Vice President of the World Bank in the field of poverty reduction and economic management, talks about what can be done to improve the life of hundreds of millions of poor people worldwide.

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ANNOUNCER: From United Nations Headquarters in New York, this is **World Chronicle**, an unedited interview programme about major global issues.

Here now to introduce our guest is the host of today's **World Chronicle**.

WILLIAMS: Hello, I'm Ian Williams, sitting in for Michael Littlejohns, and this is **World Chronicle**.

One of the leading international institutions promoting development in low income countries is the World Bank. In recent years, it has focussed particularly on ways of reducing poverty. How well is this poverty reduction strategy working? Not only through domestic reforms, but also through measures to reduce the debt burden and promote trade.

Our guest today is Masood Ahmed. He is the Vice President of the World Bank in the field of poverty reduction and economic management. Joining me to talk with Mr. Ahmed is John Metzler of *USA Radio Network* and Thalif Deen of *InterPress Service*.

Mr. Ahmed, welcome to **World Chronicle**.

AHMED: Glad to be here.

WILLIAMS: One of the first questions I think we should ask is, for many years the World Bank was seen as, let's say, its works with these structural adjustment programmes was usually seen as harming poverty, as increasing poverty in the Third World. Has this changed? Do you admit that the times the World Bank strategies were not designed to alleviate poverty but almost to accentuate them and can you explain what made you change and how you've changed, if that is the case?

AHMED: Let me just say one word about structural adjustment and then one word about what the change is. During the 1980's it became clear that for a lot of countries, particularly in Africa, the only way they were going to make a dent in their poverty was to try and get their growth rates up because these countries weren't growing at all and you cannot really tackle poverty unless you grow if you're a very poor country. So a lot of focus of the international community, including the World Bank, was to try and find ways to make these countries grow faster, help them get them from two percent growth rates to five or six or seven percent. That's what the objective structural adjustment programmes were. I think during that period, in the early days, sometimes we didn't focus on what the impact of those measures were on the poor while the changes were taking place, even though those changes themselves would lead to higher growth rates in the end and I think that's a big learning of the 1980's.

DEEN: Mr. Ahmed, some of the world's foremost nations, the UN calls them LDCs, the least developed countries – there are about 48 of them – and most of them complain that one of their biggest problems is the rising debt burden. Now in a country like Tanzania for example, I think they pay out every year more in interest than what they earn in export earnings but the World Bank – now some of them insist that one of the ways of getting out of this is to write off debts – but the World Bank insists that it will not subscribe to the concept of writing off debts.

AHMED: I think you're absolutely right. There's about 40 or so countries which have a very large amount of debt and for these countries to get over the obstacles, to grow, to be able to get private investment, they have to bring the level of debt down even though for many of these countries they're getting more aid than they're paying in debt – so they may be getting cash every year – they still need to bring the level of debt down. And that's why about three or four years ago, the Bank, working with others, has started this programme of Heavily-Indebted Poor Countries Initiative and the objective of that initiative is to bring the debt burden down for these countries to levels that they can manage. That initiative has now been underway for three years. It's about ten countries have already benefitted from it, but there's a lot of discussion now about how you can accelerate their relief from debt and how you can make it deeper and that's a topic that a lot of people are focussing on these months.

DEEN: But the World Bank does not permit the writing off of debts by the multilateral institutions.

AHMED: The World Bank does not prevent the writing off of debts from multilateral institutions but what the HIPC initiative does is create a way for the debt to be written down for the countries and then for the World Bank, from its own financing or from contributions from other donors, to be able to repay the multilateral institutions so that they can channel that money again to other countries. Because if you write off the debt of multilateral institutions, essentially what you're writing off is their ability to make new money available to other poor countries. So the important thing is to reduce the debt for poorer countries and if you can do so in a way that still makes the money available for other poor countries later, that's even better.

METZLER: Well really back in the 1980's Canada and France have started with this concept of writing off debt but it was primarily governmental debt. The bankers

themselves didn't go along with that and I can see, of course, what the World Bank is in this, if you will, catch 22. But having said that I mean ultimately what percentage of debt would you write off in the proverbial LDC? 40 percent of debt or 50 percent? Is there a special number we're working with here or is it case by case?

AHMED: The objective is to bring the debt down to a level that is sustainable. So if you write off say the same amount for every country some countries start off from a much worse situation than others. What you want to do is to get them to a level of debt they can manage and the number that people work with, less the number that we are now working with under this initiative, is to try and bring the amount of debt down to about twice the level of exports and that's a number that comes from looking across countries to see what's a manageable amount of debt. Now some of these countries are starting off with debt that is 14 times the level of exports, or 20 times the level of exports. So that's clearly 40 percent isn't going to get them anywhere near sustainability. You have to bring that down to about twice. Some countries are only three times. Just bring it down by a third and you're pretty much at that level. So the objective is to try and bring everybody to a level which is sustainable and that's about twice the level of exports.

DEEN: Is the debt burden still the major issue where poverty reduction is concerned?

AHMED: Debt is a very big issue for about 30, 40 countries that have these very large amounts of debts.

DEEN: Mostly in Africa, right? Sub-Sahara Africa?

AHMED: Most of them are in Africa but there are also some in Central America – countries like Nicaragua, for example, have very large amounts of debts in relation to their economies – and some are in Asia. But debt is not the main issue. There are other issues as well which are causing problems. Amongst them are falling commodity prices which over the last couple of years has had a big impact on African countries, and something that everybody has been reading and hearing a lot about, the impact of the financial crisis in Asia, on setting back the enormous progress in poverty that had taken place in that region which, of course, was the region that had led the reduction in poverty in the world but where now things are at a standstill.

WILLIAMS: There is this point that of course you can reduce the debt for a country and you still have a President Mobutu who will make sure any available cash goes

to him and his friends and none gets to the poor which is one of the major problems. You've had immense disparities in some of these countries, what does the World Bank propose to do about this aspect?

AHMED: I'm glad that you raised that point here because there are a number of people who ask for debt to be forgiven for all countries without any conditions and clearly it makes no sense to write down the debt of a country if that money is going to be used, as you say, for corruption or if that country does not have good management so two years later it's going to be back in the same problem. And that's why the other half of the HIPC initiative is to help countries develop a track record of managing their economies in a way that ensures that when they do get the debt reduction. They can use it for good purposes. Two sides have to go together. You have to bring the debt down to a level they can manage, but you have to bring it down and in countries that are doing the right things so they will actually take advantage of the relief to help the poor in their countries and to grow rather than to build palaces or buy arms.

METZLER: Well doesn't the Bank also discover that when looking at the attributes of lending to a particular country that at the end of the day it's more than just macroeconomic data but the rule of law and other attributes of the legal framework and a political framework or a corruption-free framework, as we're saying here, that's really may be the bottom line to make somebody make the ultimate decision to lend?

AHMED: I think one of the big learnings coming out of the 1980's and 1990's, and most recently out of the crisis in Asia, is that getting your macroeconomic balances right is important but it's not enough. All the things that we take for granted sitting here in New York, the underpinnings of a market economy, unless you get those right you're going to be very vulnerable as a country and those are exactly what you just started citing, John: getting a judicial system and a legal system that works, that's fair; getting a financial sector that is well regulated and free of corruption; getting good and clean governance and having a social protection system so that – it doesn't have to be a Western style social protection system, it can be a tribal system, it can be a familial system. But unless you have these basic underpinnings in place no amount of good macro is going to be enough to reduce the vulnerability of these countries and that's the core agenda of what the Bank is now trying to do with these countries is to help them put into place those underpinnings of a market economy – the structural, the social, the human dimensions of development.

DEEN: Speaking of corruption, what really is the World Bank doing to eliminate corruption in some of these countries? Is it one of the conditions that you lay down as part of the structural adjustment policy?

AHMED: You know Thalif, the interesting thing is the World Bank can only help. Ultimately if you want to get rid of corruption in your country, you have to deal with it yourself. External agents – the World Bank, other agencies – can only help but how can we help? We can help in three ways. One is, we can raise awareness of the issue. Four years ago, the word corruption was not used very much in international financial discussions. Now, we're talking about it openly. Mr. Wolfensohn, who is the President of the World Bank, when he goes to countries this is very high on his agenda because he has been leading a lot of effort to change the way in which people think about or talk about corruption. It is a cancer that is affecting development. Secondly, we are helping countries by sharing the experiences of other countries who have been tackling the problems. So if you have a custom service that is corrupt and you want to learn about how another country tackled the problem, we can help by transferring some of that learning from one country to the other. And third, and most important, we make sure that the projects that we finance are as free from corruption as possible and we are taking the strongest possible measures that we can to ensure that our projects, the ones that we support, lead the way in terms of being free of corruption.

DEEN: But one of the charges made is when you are talking of corruption, some of the international institutions like the World Bank are focussing already on the demand side not on the supply side.

AHMED: This is a very important point because if you look at corruption, until a few months ago, not only was it legal in a number of European countries to pay bribes for their international contracts, you could actually write the amount of bribe off as a tax deduction. So this is not a line of business in which we could argue but all the problems were cited in the developing countries. International practices, historically, have tolerated and in some cases actually encouraged that. The world has come to recognize that we have to change this. The OECD has passed a convention, that's why I said a couple of months ago, which makes this illegal now. But ultimately, corruption is going to be tackled on both the receiving end and on the supplying end, as you say.

WILLIAMS: Are you sure there's no elements of a double standard here? You

stopped calling it a bribe and you call it commission or you call it a campaign contribution.

AHMED: I think that there is going to be a lot of efforts to try and get around the letter of the law, on both sides, because the nature of these deals is that over time people will try and go from one window or use another word or another channel. Ultimately, you have to put into place strong, effective, well-paid civil services which enable governments of poor countries to pay their civil servants the kind of salaries that don't force them in many ways to try and supplement their income and I think, therefore, this is really a question of building a strong public sector and it will take over time. But you can't deal with corruption in isolation and try and hope to get rid of it if the other underpinnings of the market economy are not there.

WILLIAMS: This is **World Chronicle.** Our guest is Masood Ahmed, a Vice President of the World Bank in the field of poverty reduction and economic management.

METZLER: You're speaking about a number of the pilot fund programmes in your report for places like Ethiopia and Nicaragua, could you determine or just outline a typical pilot fund project you have say in Nicaragua? Of the sort of work that you're doing in Nicaragua?

AHMED: In the area of corruption you're talking about or ...

METZLER: Not only corruption but the overall plan that you have in a place like in Nicaragua or in Ethiopia.

AHMED: I think what we're trying to do now is really deal with, in each country, three dimensions of it. First, we have to start by taking a longer term view in terms of where is that country going and how is it going to tackle the poverty issue in that country. Where are the poor going to be in 15 years? What are the things that make poverty in that country and how can you begin to address them? Second, walking back from that you then discover in many cases that you have to look at this whole range of the underpinnings of a market economy that I talked about. In some cases, you may have a very good legal system but if you have no investment of education, or if the education is not going to areas of the country which are excluded or to people -- ethnic or other reasons they're not participating in the education system, they're not going to be able to take advantage of a market economy. So you have to look across the board at this holistic way at the underpinnings of the economy and then walking back from that I think what you

have to do is recognize that no one agency is going to be able to help by itself. This has to be a question of partnership and the partnership has to be led by the country in the driver's seat. The big lesson from development over the 1980's and 90's is that you cannot come in from outside and try and identify or lead the process. The only development that is sustainable is a development that comes from the institutions and the people within the country with others supporting, and that, I think, is the big change in the way of thinking of development agencies.

METZLER: So you're playing the support role rather than the lead or the driver's seat as you say?

AHMED: I think we basically have to be in the support role because that is the only role that makes for sustainable outcomes.

DEEN: Mr. Ahmed, at the 1995 Social Summit in Copenhagen, one of the issues that was discussed intensely was poverty alleviation and poverty eradication. There were a number of western countries who held the view that poverty cannot be totally eradicated. What is the view of the World Bank on this?

AHMED: I think our mission is to work until poverty is eradicated. That's the only reason the World Bank exists.

DEEN: It is possible?

AHMED: I certainly believe that there will be a world where it would be possible. Whether it will happen in your and my lifetimes is the question that we need to focus on. Now, the international community, through these various UN summits that you referred to, has tried to identify some concrete goals. One of those concrete goals is to try and reduce the number of people, the percentage of people living in poverty, by half by the year 2050. That would mean... Currently there's about 1.3-1.5 billion people in the world who live on less than a dollar a day. That's an enormous number. The objective, the goal of the international community is that by 2050 that number would go down to about 900 million. Can that be achieved? Until the Asian crisis it looked like overall, for the world as a whole, you might be able to achieve that goal mostly because of growth in Asia, with Africa still lagging behind. After the Asian crisis, I think you have to hope for a much faster rate of growth to be able to achieve those goals. Otherwise, you could have poverty. The number of people living under a dollar a day is being between the same number as of today, about one and a half billion. And if you think about it, if there's one

and a half billion people in 2050 who are living in poverty, probably about six or seven hundred million of them will be children that have not been born yet. So these are children that are going to be born after we talk today who we knew are going to spend their lives in poverty. And that's the challenge that I think has to keep motivating our efforts.

METZLER: Well, civil conflict is one of the reasons for it as well. It's not strictly the economy but in a place, let us say like in Ethiopia and Nicaragua, Bosnia, how does the Bank propose to bring these countries back beyond the normal lending for the infrastructure? I mean to get the proverbial foreign investment in Bosnia Herzegovina in the climate of the Balkans must be rather difficult after one builds and rebuilds the bridges.

AHMED: Civil conflict is a big cause of the worsening of the poverty picture particularly in Africa, recently, but also in Central Europe and so tragically as you can see every day on the screens. What can the Bank do in that situation? The Bank is only one small player amongst many and we have to recognize that, again, we can only work in partnership. UNHCR is going to lead the way in the early phases. The UN system more broadly has a much bigger role to play in trying to put in and help the conditions for stability that will enable the Bank in a post-conflict phase to come in with the reconstruction. But the building of confidence that enables a private sector to come back is a slow and difficult process in many of these cases because the private sector is frequently much more conservative about going into these situations than a lot of agencies like UN agencies or even bilateral investment agencies.

DEEN: Sometime ago the World Bank made a pretty strong case for sharp cuts in military budgets as part of the development process. What's the World Bank's position now because you have been pretty quiet on that subject for a long time now?

AHMED: I think our position is that if you're a poor country, you have very limited resources. You need to maximize the amount of those resources that can go into productive development expenditures. We can't make a judgment as to what is the right amount of military expenditure for a country. Every country has a legitimate right to security. We neither have the expertise nor the mandate to try and make judgments for countries on what is the right amount of military expenditures. What we can keep focussing the discussion on is, are you sure that you are spending as much as you can or you should be of the limited resources that you have on immunizing children, on building

clinics, on building rural roads, on building the infrastructure that you need. And I think we can only be engaged in that process through this kind of dialogue but we can't come in and say the right amount of military expenditure in Country X is three percent or five percent of GDP. We have no mandate to do that.

WILLIAMS: Do you feel now such inhibitions about telling them that the right amount of state-owned ownership is X or Y and the right amount of social security spending is Z or ...

AHMED: I feel exactly the same inhibitions in telling them that because ultimately what we have -- what is the role of external agencies? If you say the country is in the driver's seat you have to accept that they make the final trade-off. What you can do is to say, look, here are the experiences of five other countries and there is another role. One is to say, if five countries are spending five percent of their income on say social security and they have a working social security system, and this country does not, you can keep bringing that experience there and in the end if what a country is doing you don't believe is supporting development, you don't have to be part of it. I think it's an obligation to shareholders, which is the international community, that we don't support a country that is in the driver's seat but driving off the edge of a cliff. But ultimately, it's their call because it's their decision and they're the ones who have to live with the outcomes.

WILLIAMS: But for many years, the political pressures of shareholders enabled large funds of money to go towards countries like Mobutu's Zaire, which was the original kleptocracy. A country ruled by thieves. So the political pressure from the shareholders kept the money going even though it was obviously economically unsustainable.

AHMED: I think it depends on shareholders that we all have but I think in the 19 -- before the Cold War ended, there were lots of reasons why people pushed money towards one country or the other. I think ,increasingly, everyone is beginning to recognize there's too little aid money and too much to do to use it for purposes other than alleviating poverty.

METZLER: But isn't it somewhat really precisely that those countries which are spending the most on the military are some of the poorest of the poor in terms of GNP *vis-a-vis* military spending? How does one tell them? Maybe these examples that you're mentioning, showing them dossiers how five other countries did it and that's really the way, I suppose.

AHMED: I think that's part of the way what we can do but one of the things is that the World Bank is only one agency in the international community that has been trying to help countries through various ways. The UN, a broad range of agencies, is obviously one area; regional banks, very important; peer discussions amongst countries working in a region together, another area. The IMF has an important role to play. So I think we can bring something to the table but we are only going to be one actor amongst many.

DEEN: Can you cite the example of any country or region which strikes the right balance between military spending and development spending?

AHMED: No. I think it's very difficult to cite examples of which countries are spending. What we can focus on is what are the other countries in the regions that have been able to invest enough in development expenditures and East Asia, even after the setback, is the one region that has made enormous progress in terms of lifting people out of poverty. Remember, 25-30 years ago in Indonesia, six people out of ten were living in poverty. Now it's less than one and a half out of ten. After the crisis, it's obviously much worse but hopefully this is a temporary setback. Korea, Thailand, these are countries that have done well and I think what we need to focus on is try and learn the lessons of how countries are able to save and invest wisely in development rather than make the balance across expenditures.

DEEN: When the crisis took place in Asia there were some who posed the question, where did the World Bank go wrong?

AHMED: I think where we went wrong was, like everybody else, we looked at this enormous progress, we saw how the growth rates of seven percent a year, year after year for 20 years, we saw the broad support in terms of poverty alleviation that growth was being shared and we didn't ask often enough the question, what about the corruption, what about the weak financial systems? Are these things going to prove to be a source of vulnerability? We recognized they were a source of vulnerability, but we didn't recognize how big an impact they could have had as these countries integrated into the world economy. And the issue I think that everybody is learning from is as countries become part of a global economy, the process of globalization can raise both the rewards and also the risks of economic management.

WILLIAMS: Are you -- there's interesting signs during the crisis that the IMF and

the World Bank were not as one during the currency crisis. Is that still the case?

AHMED: We have a very good relationship with the IMF both at the working level and in terms of all direction. Those were periods when we were all learning and adjusting to new crises and I think as we go forward we are now all focussing on how can you help countries deal with the objective of reducing poverty over our lifetimes so that we don't leave a world to our children that we are going to be unhappy with.

WILLIAMS: Mr. Ahmed, that's all the time we have. Thank you for being with us on this edition of **World Chronicle.**

AHMED: Thank you for having me.

WILLIAMS: Our guest today has been Masood Ahmed, a Vice President of the World Bank in the field of poverty reduction and economic management. He was interviewed by John Metzler of *USA Radio Network* and Thalif Deen of *InterPress Service*.

I'm Ian Williams, sitting in for Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle.**